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RUEHUJA/AMEMBASSY ABUJA 1161
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RUEHDS/AMEMBASSY ADDIS ABABA 1165
RUEHBY/AMEMBASSY CANBERRA 0426
RUEHDK/AMEMBASSY DAKAR 0785
RUEHKM/AMEMBASSY KAMPALA 1219
RUEHNR/AMEMBASSY NAIROBI 3566
RUEHFR/AMEMBASSY PARIS 0989
RUEHRO/AMEMBASSY ROME 1617
RUEHBS/USEU BRUSSELS
RUEHGV/USMISSION GENEVA 0556
RHEHNSC/NSC WASHDC
RUCNDT/USMISSION USUN NEW YORK 1376
RUEKJCS/Joint STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKDIA/DIA WASHDC//DHO-7//
RUCPDOC/DEPT OF COMMERCE WASHDC
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000349

SIPDIS

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AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN
TREASURY FOR J. RALYEA AND B. CUSHMAN
COMMERCE FOR BECKY ERKUL

E.O. 12958: DECL: 01/12/2016

TAGS: ECON EFIN EMIN PGOV ZI

SUBJECT: MUGABE SIGNALS "FLEXIBILITY" ON MINING LAW

REF: HARARE 300

Classified By: Charge Eric Schultz under Section 1.4 b/d

Summary

¶1. (C) Zimplats CEO Craig Sebborn told econoff March 16 that he and the visiting Implats CEO had made their case the day before directly to President Mugabe that the proposed changes to the Mines and Mineral Act (reftel) amounted to nationalization of the industry and would harm the sector's development. Mugabe had responded that the GOZ was committed to indigenous empowerment but that the overall percentage of foreign ownership in local mines and the percentage of shares subject to forfeiture without compensation were both open to negotiation. Mugabe also indicated that he had made commitments to others (i.e. the Chinese) that would have to be respected. The Minister of Mines subsequently publicly announced GOZ "flexibility" on the issue. Sebborn said he had found Mugabe mostly lucid but drawn in appearance and apt to tire easily. End Summary.

Foreign Investment At Risk

¶2. (C) In a March 16 meeting, Zimplats CEO Sebborn provided us with a readout of his and Implats (Zimplats' South African parent company) CEO Rumble's meeting with President Mugabe the day before. Sebborn said the meeting had lasted two and a quarter hours and that Vice President Mujuru and Minister

of Mines Midzi had also participated. Sebborn said Vice President Mujuru, who had been instrumental in arranging the meeting, had advised him in advance to be blunt with Mugabe.

¶13. (C) Sebborn had taken this to mean that Mugabe was being shielded from mining sector realities and the economic implications of the Cabinet proposal. Still, Sebborn said he and Rumbles had been struck by how badly informed Mugabe was about the level of foreign-investment in Zimbabwe's mining sector, mining operations in general, and the liberal mining laws in place in the rest of the SADC region. They had therefore walked Mugabe through Zimplats' already extensive investment in the country and the immense additional investment that they had planned, including building a local processing plant.

¶14. (C) Sebborn said Rumble had told Mugabe that Implants was one of only a small number of South African, Canadian and British companies holding proprietary platinum processing technology and that it would not invest in the processing plant if it lost majority control of the company. (N.B. Other mining companies have told us that foreign investment negotiations have come to a stand still since Midzi's announcement.) Sebborn said he and Rumble had also noted that the company had acquired all its claims post-independence and at full market value and described the Cabinet proposal to Mugabe as a grave injustice that amounted to nationalization.

Just A "Work In Progress"

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¶15. (C) Sebborn said Mugabe had taken exception to the executives' contention that the GOZ was attempting to nationalize the industry. Mugabe had asserted that GOZ policy was driven by three fundamental empowerment principles: Zimbabwe's mineral resources belonged to the state; the GOZ was their custodian; and Zimbabweans must benefit more from their extraction. That said, Midzi had issued his March 3 statement prematurely. The GOZ's plans were in fact, "a work in progress" and the state's total share and the share to be handed over without compensation were both negotiable.

¶16. (C) Sebborn said Mugabe told them he did not want to see an injustice occur and he wanted Zimplats to remain in Zimbabwe. He had said he planned to review firsthand what Zimplats had invested in Zimbabwe and to that end had accepted an invitation from Sebborn to inaugurate a new Zimplats project in May and for Minister Midzi to tour Zimplats' Ngezi mine site on March 20. However, Mugabe had also said that "others" were involved to whom he had made commitments. Sebborn said Mugabe had not identified who those others might be but that both he and Rumble believed he had been referring to the Chinese.

¶17. (C) Sebborn said Mugabe had also told them that Zimbabwe and South Africa together controlled 75-76 percent of the world's platinum resources. Mugabe had then unsettled the executives by claiming that he and President Mbeki had agreed to work together on indigenization of the industry. Sebborn said Rumble would seek clarification from Mbeki upon his return to South Africa.

GOZ "Flexibility"

¶18. (C) Addressing the Chamber of Mines on March 16, Midzi backpedaled from his earlier statement and announced GOZ "flexibility" on the issue of black empowerment. However, he rattled the already shaken sector further by asserting that the GOZ would undertake empowerment negotiations on an

individual company basis rather than sector wide. Sebborn said that given Zimplats' record on social sector investments, he was "reasonably positive" that his company could eventually work out a satisfactory empowerment deal with the GOZ. However, in general he recognized that privately negotiated solutions were not in the best interests of the sector. They put control in the hands of a few, which he called a "messy" solution fraught with opportunities for opaque deals.

Impressions of Mugabe

¶9. (C) Sebborn said the 82-year-old Mugabe was mostly lucid, and a good debater but that he had tired often during the long meeting. He characterized Mugabe's appearance as drawn, even emaciated, and commented that his voice broke frequently. He noted that Mugabe's gray hair was now colored. Sebborn also noted how cowed Mujuru and Midzi had been in Mugabe's presence.

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Comment

¶10. (C) It is too early to tell whether Sebborn's guarded confidence that a deal can be reached for Zimplats is well placed. Regardless, the policy zigzagging among Midzi, the Cabinet, and Mugabe, has unsettled the sector and could bring a halt to investment plans. More broadly, it has also deepened uncertainty over security of property rights, the sanctity of contracts, and the GOZ's willingness to work with industries to draft and implement policy in a transparent and rational manner. Even if mining indigenization is watered down, we expect it will be implemented non-transparently so as to favor ruling party elites.

SCHULTZ